

**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency

100 USDA, Suite 102

Stillwater, Oklahoma 74074-2653

**OK Notice FLP-366**

**For:** County Offices

**Production Credit Association of Woodward**

**Tax ID # 73-0582499**

**Preferred Lender Program Status**

Approved by: State Executive Director



**1 OVERVIEW**

**A**

**Background**

2-FLP governs the processing and servicing of guaranteed loans. The Preferred Lender Program (PLP) allows lenders to originate and service guaranteed loans as they do their non-guaranteed loans.

**B**

**Purpose**

The purpose of this notice is to:

- Advise County Offices that the Production Credit Association of Woodward, Credit Management System (CMS), has been updated and revised.
- Provide guidance and direction to staff to ensure continuous service to the Lender.

**C**

**Contact**

Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the State Office.

**D**

**Filing Instructions**

This notice should be filed with the FLP series Notices.

Disposal Date	Distribution
Indefinite	Farm Loan Program Teams, County Offices, DD's, COR's

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### 2 ACTION

#### A

##### County Office Action

Attached is a copy of the revised Production Credit Association of Woodward PLP Credit Management System (CMS). This replaces the CMS that is attached to the bank's master September 18, 2000, Lender's Agreement (**maintain and do not destroy**) on file.

The PLP Status remains in effect for the same 5-year period, September 18, 2000, to September 18, 2005.

PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. Any action not addressed in the CMS will then be in accordance with 2-FLP as a CLP lender.

The County Office shall develop and maintain an operational file on each lender. This file will contain the information outlined in 2-FLP Par. 48 B, Operational File.

#### B

##### Loan Making

All PLP guaranteed loan applications should be filed with the Farm Loan Manager servicing the county, which has been designated as the centralized PLP application-processing county.

Under Par. 83 B, PLP applications must be approved or rejected and the lender also notified of the decision within 14 calendar days of the complete application.

#### C

##### Loan Servicing

All PLP guaranteed loans, once closed, shall be sent to the Farm Loan Manager servicing the county where the borrower's principal residence on the farm is located. If the borrower's residence is not located on the farm or the borrower is an entity, the loan will be serviced in the county where the farm or major portion of the farm is located, unless otherwise approved by the State Office.

If not covered under the CMS, Production Credit Association of Woodward must follow the servicing requirements for CLO lenders found in 2-FLP Handbook.

All loan servicing actions on existing guaranteed loans will be based on the current CMS in effect, regardless if the loan was approved under a previous CMS revision.

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### D

#### **PLP Designated Loan Officers**

Following is a complete list of persons designated to originate and service PLP loans for Production Credit Association of Woodward.

John Kelln, Chief Credit Officer  
Randy Meyer, Sr. Vice President-Credit  
Boyd Hughes, Vice President/Sr. Field Representative  
Mandy Saunders, Asst. Vice President

### E

#### **CMS Interpretation**

Contact the Guaranteed FLP Section at the State Office for any assistance and/or guidance in regards to the interpretation of the Production Credit Association of Woodward PLP Lender's Agreement/Credit Management System (CMS).





SEP 4 2002

SEP 10K

United States  
Department of  
Agriculture

Farm and Foreign  
Agricultural  
Services

Farm Service  
Agency

1400 Independence  
Avenue, SW  
Stop 0523  
Washington, DC  
20250-0523

Mr. John Q. Kelln  
Division President & CCO  
Production Credit Association of Woodward  
Post Office Box 1088  
Woodward, Oklahoma 73802-1010

Dear Mr. Kelln:

Over the past 12 months, the Farm Loan Programs staff has been reviewing all Credit Management System (CMS) summaries for Preferred Lenders. During the reviews, we identified loan servicing issues that were not specifically addressed in your initial CMS summary and suggested revisions to address these areas of concern. We received your concurrence and acceptance dated August 5, 2002.

Enclosed you will find the modified CMS summary to use as your most current working document when processing and servicing guaranteed loans. Thank you for your continued interest and participation in the Farm Service Agency's Guaranteed Loan Program.

If you should have any questions, please contact Larry Purnell, Loan Servicing and Property Management Division, Guaranteed Loan Servicing and Inventory Property Branch, at (202) 720-4938.

Sincerely,

Carolyn B. Cooksie  
Deputy Administrator for  
Farm Loan Programs

Enclosure

cc: LSPMD/4A/file/500pb  
SED- Oklahoma

LSPMD/Larry Purnell/507pb  
File Code: Return to writer

FSA/FLP/LSPMD/L.Purnell/720-4938/lp/08/21/02/draft  
FSA/FLP/LSPMD/L.Purnell/720-4938/tay/final/8-27-02  
Recall:s/lspmd.glob/cmspcawoodward

Log#02-1166



**PREFERRED LENDER PROGRAM  
CREDIT MANAGEMENT SYSTEM SUMMARY  
ATTACHMENT TO FORM FSA-1980-38, "LENDER'S AGREEMENT"**

**PRODUCTION CREDIT ASSOCIATION OF WOODWARD  
WOODWARD, OKLAHOMA**

This attachment contains the credit management system requirements agreed to by the Production Credit Association of Woodward (Lender), in Woodward, Oklahoma. The following information summarizes the credit management system requirements provided in the Lender's request for preferred lender status, with attachments and exhibits. Requirements for loan administration, servicing and reporting activities not specifically addressed in this attachment are governed by the attached Form FSA-1980-38, "Lender's Agreement", and 7 CFR 762.

**I. GENERAL OPERATIONS**

**A. Normal Trade Area**

The chartered (normal) trade area of the Lender consists of three counties in the Oklahoma Panhandle (Beaver, Cimarron, & Texas) and four counties in extreme Northwest Oklahoma (Ellis, Harper, Woods, & Woodward). The Lender serves these counties from two locations, an administrative office located in Woodward and a full service branch office located in Guymon. Since the City of Woodward serves as the regional trade center for Northwest Oklahoma and the Northeast portion of the Texas Panhandle, it is not uncommon for the Lender to receive loan application requests from farmers/ranchers living outside of the chartered territory, such as Alfalfa, Dewey, Major, & Roger Mills counties in Oklahoma and from Hemphill, Lipscomb, and Ochiltree counties in Texas.

The Farm Credit Administration (FCA) is considering a change in federal regulations which will allow direct lender associations, such as PCA of Woodward, to apply for a national charter, which the Lender intends to do, at the earliest possible time.

PLP status will cover all Oklahoma counties and the above listed Texas counties.

The Lender's portfolio primarily consists of beef cow/calf ranches, stocker cattle, feeder cattle, wheat, corn, soybeans, and hay crops. The Lender also lends to a few dairies, but this portion of the portfolio has been decreasing. Although the Lender does not currently finance any swine operations, it has witnessed a significant increase in swine production within the territory.

## **B. Lending Authority**

John Kelln, President, has the authority to approve loans up to \$601,000, provided the loan is classified as acceptable or special mention. John Kelln is the only individual who has authority to approve new loans, up to \$601,000, provided the loan is classified as acceptable or special mention.

Randy Meyer, Sr. Vice President-Credit, has the authority to approve loans up to \$501,000, provided the loan is classified as acceptable or special mention.

Boyd Hughes, Vice President/Sr. Field Representative, has the authority to approve loans up to \$301,000, provided the loan is classified as acceptable or special mention.

Mandy Saunders, Asst. Vice President, has the authority to approve loans up to \$101,000, provided the loan is classified as acceptable or special mention.

Troy Gosney, Loan Officer, has the authority to approve loans up to \$76,000, provided the loan is classified as acceptable or special mention.

The Employee Loan Committee of the PCA of Woodward, has authority to approve loans up to \$1,001,000. The employee loan committee acts on all credit actions, which exceed the loan officers, delegated authority level. All credit actions, regardless of size, involving loans, which are classified as substandard, require the approval of the Employee Loan Committee. As a matter of practice, the Employee Loan Committee approves all new loans, provided the President has not done so under his delegated authority. The President has the authority to appoint members of the Employee Loan Committee and shall consist of three or more members. At the present time, all of the individuals named above are members of the Employee Loan Committee.

The Executive Loan Committee of the PCA of Woodward, has authority to approve loans which are outside of the authority of the Employee Loan Committee. The PCA of Woodward has established an internal lending limit in an amount which is less than the lending limit allowed by Farm Credit Administration Regulations. At the present time, the internal imposed lending limit is established at 20% of the Association's lending limit base as defined under Subpart J of FCA Regulations 614.4351. For the month of June, 2000 this amount is calculated to be \$1,433,773.56. This amount will change in accordance with changes in the association's capital position. In addition and should the Association President so desire, loan actions can be submitted to the Executive Loan Committee for approval, on any loan action (regardless of size and classification) which he deems necessary. The Executive Loan Committee is appointed by the board and consists of two members of the Board of Directors and the President. In addition all remaining board members serve as alternate members.

In addition, the Lender's Board of Directors (Board) will conduct a post review of all credit actions on loans which exceed \$500,000.00, regardless of loan classification, and all credit actions on loans classified as substandard.

### **C. Policy Exceptions**

The Board has authority to rescind or modify all policies. However, except as may be required by law, the Board has delegated management authority to the President, who may redelegate authorities and responsibilities as appropriate. Policy exceptions will normally be documented in the loan file and will be routinely reported to the board.

Loans are expected to meet all of the Lender's established standard credit factors as specifically outlined in the credit underwriting standards. Loans not meeting these standards may be considered on a case-by-case basis. If a credit standard is not met, the application must exhibit strong offsetting credit factors to be considered. Deviations from standards will be fully justified and approved by the Employee Loan Committee. Loans not meeting credit standards will normally require an FSA guarantee. If a guarantee is requested, the exception and offsetting strengths will be clearly identified and the decisions justified in the loan narrative which is submitted to FSA.

### **D. Interest Rates, Loan Terms, and Fees**

The Lender will not charge its FSA guaranteed loan customers rates which exceed those charged to the Lender's average farm loan customer. As a rule, interest rates for guaranteed loan customers, will be placed on the Lender's base rate, as determined by the Lender's Board. It is possible that a lower rate may be assigned, but in no case will a higher rate be charged to guaranteed loan customers. The borrower can choose the interest program which best suits his personal needs and desires, be it variable, fixed, or prime rate based.

Repayment terms are based on the type of agricultural entity being financed and the timing of the cash flow stream. Term loan repayments are structured to be collected either annually, semi annually, quarterly, or monthly. Loan terms will be dependent upon collateral type and the expected economic life of the collateral securing the loan. Lines of credit will be extended for up to 5 years and scheduled to be repaid as the income from the farm production is received. New equipment and breeding livestock loans will be normally be scheduled to repaid in 7 years. Used equipment will normally be scheduled to be repaid in 5 years. Loans secured by real estate may be fully amortized for terms not to exceed 10 years, or can be placed on a 7-year note with a 15 year amortization.

There is currently no policy which establishes the Lender's fee structure or when fees can be waived. The Lender's President retains authority to establish fees or waive fees on a case-by-case basis.

Fees charged to the Lender's guaranteed customers will not exceed those charged to non-guaranteed customers for similar transactions. The borrower typically pays fees for appraisals and credit reports. Any fee paid to a Government agency is also passed on the borrower.

#### **E. Internal Credit Review System**

Credit personnel of the Federal Land Bank Association of Western Oklahoma, FLCA, conduct the Lender's Internal Credit Review program on a semi-annual basis.

In addition, the Lender is subject to periodic reviews by FCA, the Farm Credit Bank of Wichita, its own internal operations review, and by an outside independent auditor.

These reviews, with primary importance placed upon the Internal Credit Review, serve as an independent, objective, active means for monitoring adherence to the Lender's policies and procedures, as well as assessing the accuracy of the credit and performance classifications and identifying credit administration weaknesses. In addition, the Lender's President will normally conduct a cursory review of all loan actions prior to approval under delegated authority.

All of these reports are submitted to the Lender's Board in a timely manner.

#### **F. Use of Agents, Consultants, and Packagers**

As a matter of general practice, no agents, consultants, or packagers are utilized. However, this is not to say that the Lender would never utilize the services of such. If a decision was made to utilize the services of an agent, consultant, or a packager, it would be to utilize the services of a professional, on highly specialized loan requests or properties, for which the Lender's staff would lack operational knowledge.

#### **G. Organizational Structure**

The Lender's organizational chart was submitted with the PLP application and is being retained in the FSA National Office.

#### **H. Loan Officer Qualifications**

John Q. Kelln, President, 25 years lending experience, 16 years with Farm Credit System, 9 years with commercial banks. Experience with commercial and real estate lending. Mr. Kelln is in charge of all lending programs for PCA of Woodward, including the FSA guaranteed lending program. Selected as one of three individuals, to represent the Farm Credit System at FSA's Guaranteed Loan Program Stakeholders Meeting in June, 1997. B.S., Agricultural Economics, Oklahoma State University.

Randy Meyer, Sr. Vice President-Credit, 21 years lending experience, all with the Farm Credit System. His assigned loan portfolio includes a significant amount of FSA guaranteed loans. B.S., Animal Science, Oklahoma Panhandle State University.

Boyd Hughes, Vice President/Sr. Field Representative, 22 years lending experience, all with the PCA of Woodward. Certified Farm Credit Appraiser. B.S., Animal Science, Oklahoma State University.

Mandy Saunders, Assistant Vice President, 6 years lending experience, all with PCA of Woodward. Her assigned portfolio includes a significant amount of FSA guaranteed loans. B.S., Animal Science, Texas Tech University.

Troy Gosney, Loan Officer, 2 years lending experience, all with PCA of Woodward. His assigned loan portfolio includes several FSA guaranteed loans. B.S., Agricultural Education, Oklahoma Panhandle State University.

In the event of changes in personnel, the Lender will ensure that loan officers dealing with FSA loans have significant experience in agricultural lending and in originating and servicing FSA guaranteed loans.

#### **I. Compliance Monitoring**

Normal date specific loan servicing plans and participation in FSA continuing education programs help to insure that all FSA guaranteed loans are closely monitored for compliance issues. In addition, the Lender's internal credit reviews focus on compliance as well. The reviewers, who conduct the Lender's internal credit reviews, have an excellent working knowledge of FSA guidelines and include compliance issues within their review scope.

#### **J. Environmental Issues**

It is of primary importance for the Lender to comply with and assure that all environmental policies and procedures are in compliance with FSA requirements. In that regard, the association has committed itself to frequent continuing education for its loan officers and real estate appraisers. Environmental compliance issues are an integral part of the loan process, especially when real estate is being taken as collateral.

The Lender will work with the Oklahoma or Texas State FSA Office to ensure that environmental policies and procedures are in compliance with FSA requirements. Real estate appraisers are required by the Lender to disclose any environmental issues in their appraisals.

The field inspector/appraiser is trained to recognize indicators of potential environmental concerns, such as soil contamination, underground storage tanks, improper disposal of disposal practices. etc.

On livestock and grain handling facility loans, an environmental inspection and assessment will be required. In order to determine the appropriateness of the security being offered and the absence of environmental threats, an environmental inspection will be conducted by a person who is highly trained in environmental issues. The Lender will deny all loans on properties which have been identified as having environmental problems.

#### **K. Requesting a Guarantee**

Before submitting an application, the Lender will make a site inspection to assess the suitability of the farm and complete environmental due diligence, as appropriate.

When requesting a guarantee, the Lender will submit the following information to FSA:

1. A complete "Preferred Lender Application for Guarantee" (FSA-1980-28);
2. A complete loan narrative, discussing the "5 Cs of Credit" and including a description of the location of all farmed land;
3. If Interest Assistance is required, a completed Part G of "Application for Guarantee" (FSA-1980-25), projected cash flow, and current balance sheet; and
4. When the applicant is an entity, the names, social security numbers, and percent ownership for each entity member (entity information will be addressed in the loan narrative).

## **II. LOAN ANALYSIS / UNDERWRITING**

### **A. Management Ability/Credit History Analysis.**

The applicant's management ability, character and credit history are of primary importance in the credit decision. A field inspection is conducted by the Lender's Vice President/Sr. Field Representative in order to determine the management ability of the applicant, as well as the suitability of the collateral being offered.

**Credit history.** Normal credit references, from any available source, are obtained in order to determine the credit worthiness of the applicant. As a matter of practice, credit reports are obtained on all customers and are normally updated on an annual basis. Debt verifications are obtained on all debts, either through the credit report or in the form of written verification. UCC searches are obtained in the applicant's county of residence and also from the central filing source of the State.

As a matter of practice, credit histories, which reflect a bankruptcy, previous charge off, or a repossession, will normally be denied. If a decision is made to continue with a new applicant who has had previous credit problems, a thorough investigation will be made to determine if extenuating circumstances exist and to discover all pertinent facts concerning the problem.

**New customers and beginning farmers.** The Lender is currently considering the adoption of more lenient underwriting standards for young, beginning, small, & minority farmers, if the increased portfolio risk can be offset through the utilization various programs, e.g. loan guarantees, interest reduction programs, etc. At the present time, however, the underwriting standards for these farmers are the same as those for the Lender's other farm loan customers.

**Previous Government program participation.** The Lender will work with the local county FSA office to determine past use of Government programs and eligibility issues.

## **B. Capacity Analysis**

Capital Debt Repayment Capacity (CDRC) is the measurement of a borrower's ability to repay capital debt, based on an analysis of the operation's profitability. The applicant's ability to service the proposed debt plus existing debt and contingent liabilities is evaluated for all loans with the use of pro forma cash flows. The cash flow form utilized by the Lender not only identifies income and expenses, but will also account for changes in various collateral values, thereby providing an accrual basis cash flow.

For loans of \$50,000 or less, at least two (2) years of financial information is recommended; however an analysis of only one year's information is required. For loans exceeding \$50,000, at least three (3) years of history of farm income, expenses, and production are analyzed with adjustments being made to account for any changes in the operation. For all new customers and for loans exceeding \$500,000, five (5) years of history will be analyzed.

Employment income is normally verified through the use of an employment verification form, which is mailed to the applicant's employer. Occasionally, tax returns will be utilized to verify this income. Tax returns are also utilized to verify all other types of income.

Income is analyzed on an annual basis. This analysis will compare actual performance to projected performance, with differences being explained in the loan narrative.

The Underwriting Standards Policy identifies the various CDRC risk levels which are acceptable to the Lender (see attached). Loans with moderate risk will have a CDRC of 115% to 140%. All requests for guarantee will have, at a minimum, 100% coverage with offsetting strengths in other credit factors.

### **C. Capital Standards**

Asset quality, debt structure, and financial trends will be based on accurate and verifiable historical and current balance sheets, together with income and expense statements of comparable dates. Current ratio, intermediate ratio, owner equity, debt to asset, liquid margin, and working capital ratios are calculated on all loans.

Target ratios for the PCA of Woodward vary depending upon the type of agricultural enterprise being financed. Refer to the attached underwriting standards ratio summary for a complete list. Typical target ratios will be a current ratio of 1.60:1 and an owner equity level of 50%. Loan requests which do not meet target levels will have offsetting strengths in other credit factors and will normally be considered for FSA guarantees.

The financial statement on the loan request must be no more than thirty (30) days old for a new customer, unless an audited statement is provided. In this case, the most recent audited statement is permitted with adjustments being made. For existing customers, a balance sheet of up to ninety (90) days old is acceptable. It is preferable to obtain financial statements for the previous two years, if available, on new customers. Financial statements should be supported by tax returns, income statements, or any other available data.

**Entity applicants.** The Lender obtains financial statements from all liable parties in addition to the entity itself. Consolidation of all financial statements will be performed, with proper adjustments being made for cross entity assets and liabilities. Income statements will also be consolidated in a like manner.

**Debt verification.** All debts are verified, either through the credit report, a debt verification form, personal documented telephone calls, or from information provided by the applicant. All verifications are maintained in the loan file.

### **D. Collateral Analysis**

The Lender maintains a collateral margin target standard of 35% for most loans. Refer to the attached underwriting standards for a complete list of collateral standards and their risk levels. Security will be adequate to protect the Government and Lender's interests.

**Appraisal guidelines.** Field inspections or real estate appraisals are made on all new loans prior to the loan being approved. As a matter of practice, the inspection is made prior to the completion of the credit analysis, in order for accurate collateral values to be used in the credit analysis. Values are based on current markets. The Lender has extensive knowledge and available resources to determine livestock, machinery and equipment, and real estate values. Auction sales (livestock and machinery) are regularly attended by Lender personnel and the association utilizes the Data Transmission Network satellite system in order to have current cash and futures market information.

Appraisals will be obtained on all primary security and will be performed by a qualified appraiser. As a matter of practice, the loan officer in charge of the loan will not perform the field report or the real estate appraisal. An appraisal review process is performed as a part of the Lender's internal credit review process.

Field report values should be current and real estate appraisals less than 6 months old are acceptable.

State certified appraisers are utilized for loan transactions over \$250,000. USPAP guidelines will be followed at all times. On occasion a qualified appraiser, whose work and experience has been reviewed and approved by the Lender, may perform appraisals for loan transactions under \$250,000.

**Verifying ownership of assets.** The ownership of assets being pledged as security is verified by several means. Real estate ownership is determined by an attorney's title opinion or title insurance. Ownership of chattel items is accomplished by visual inspection, bill of sale, or a search of Uniform Commercial Code (UCC) filings. If doubt exists, the depreciation schedule of the applicant's tax return will be reviewed. Documentation of the above verifications is maintained in the loan file.

**Verifying prior liens.** Prior liens are verified with the use of a UCC lien search in the applicant's county of residence, central filing for the State, and other counties where the applicant is conducting business. If a lien is noted, the Lender contacts the secured creditor to assess the lien. Occasionally, secured creditors are called to clarify discrepancies.

Real estate mortgages or Deeds of Trust are filed of record to perfect real estate liens. UCC-1 forms are filed to perfect chattel liens. Prior to the above, a preliminary title opinion or title insurance binder is requested to insure title ownership. After filings are completed, a final title opinion or title insurance certificate is requested to verify the priority of the Lender's lien position on real estate. Preliminary and final UCC lien searches are conducted to verify lien position on chattel items and fixtures.

Security agreements with appropriate descriptions (model #, serial #, etc.) are obtained for all chattel and fixture items.

#### **E. Conditions**

Loan conditions address loan purpose, loan amount, loan structure, pricing, scope of financing or requirements unique to the credit. These conditions need to balance credit risk with effective loan conditions and controls. Conditions are added as loan risk increases. The conditions of approval are based on the analysis of the credit factors to properly identify applicant creditworthiness and risk. Examples of approval conditions

include additional monitoring, collateral insurance, price protection, etc., in order to reduce the risk exposure of any particular loan.

As a matter of practice, most FSA guaranteed loans will have loan agreements which outline the loan conditions. Conditions are determined on a case-by-case basis and will attempt to identify the areas of concern and mitigate risk.

**Disbursement of loan proceeds.** Enterprise budgets are maintained on all loans which are subject to multiple draws. Budget overdraft reports are activated any time a draw is presented for payment which would overdraw a specific budget. Loan officer approval is then required prior to payment. Loan proceeds are disbursed via the utilization of a PCA draft. Ledger sheets are maintained on all loans which documents the date of payment, amount, and purpose. Occasionally, a borrowing base margin report will be required on loans with a high level of liquid property. This borrowing base agreement will limit the amount of funds that can be drawn at any one time.

### III. LOAN SERVICING / ADMINISTRATION SYSTEM

#### A. General Servicing

Borrowers will be monitored for financial performance to determine the level of risk to the Lender. At a minimum, guaranteed agricultural loans will be reviewed on an annual basis. Specific loans will be acted upon according to the servicing plan adopted at loan origination. Loans will be flagged for additional monitoring at the first indication that performance is not in accordance with projections. The loan officer handling the credit will be the one most likely to identify performance problems. At this point, the loan officer will either initiate corrective action or will consult either the President or the Employee Loan Committee for guidance.

Proper loan supervision and servicing requires accurate and timely identification of loans for which performance is either less than acceptable or below expected levels. These loans are grouped according to risk level such as weak, work-down, work-out, or liquidation loans.

Loans are generally placed on a watch list when classified OAEM (*Other Assets Especially Mentioned*), Substandard, Doubtful, and Loss.

Approval of loan servicing actions is based on the level of delegated authority. Please refer to the previously referenced delegated authority levels.

Annual borrower review documentation for line of credit loans will include the following:

- Updated appraisals of livestock, crops and equipment. Semi-annual inspections for stocker and feeder livestock operations.
- A current balance sheet for borrower, entity members, and personal guarantors.
- An analysis of current assets, crop conditions, livestock conditions, prices and the likelihood of payment of operating credit and term debt limitations due in the current production cycle.
- An income and expense statement, such as IRS Form 1040, Schedule C or F or the customers computerized records.
- A comparison of projected to actual financial performance.
- Cash flow projection for the next production cycle.
- Review of capital purchases, if any, and consumer credit needs projected for the next year.
- Assessment of farm condition.
- Annual county records search (UCC).

Borrowers with guaranteed term loans secured by real estate which are performing are required to submit yearly financial statements. Inspections will be made if financial deterioration is noted.

**Inspections.** Annual inspections will determine security condition. Capital purchases during the operating year are added to the security agreement at the time of purchase. Current inventories are maintained on an ongoing basis on all liquid collateral (crops and cattle), which reconcile current inventories to beginning inventories. Cattle are marked for identification. Proceeds from the sale of security will be applied to the debt according to lien priority. Where multiple loans are secured by a blanket lien on chattel security, crop and livestock income will be applied to the annual operating loan debt incurred to produce that item before being used to pay term debt installments.

On-site chattel inspections are completed as follows:

- annually for operating loans with loan commitments equal to or greater than \$300,000 every three years for operating loans with loan commitments of less than \$300,000.
- within 30-40 days on delinquent loans.
- annually on adversely classified loans with a loan commitment equal to or greater than \$100,000.
- when a loan is adversely classified and the commitment is greater than \$25,000.
- in conjunction with a loan extension request and the commitment is equal to or greater than \$300,000.

An on-site chattel inspection will be completed on all FSA guaranteed loans .

The Lender conducts an annual review of existing customers' credit classifications. The Lender requests updated financial statements from *Acceptable* customers with loans greater than \$100,000 which are not consumer loans with monthly payments, and on all loans classified OAEM, Substandard, Doubtful, and Loss. The Lender conducts an annual credit analysis and classification review on all OAEM, Substandard, Doubtful, and Loss accounts. The Lender also completes a classification review on acceptable loans as defined above every three years.

**Annual analysis and classification updates.** On existing loans equal to or greater than \$100,000, which are classified Acceptable, and on loans less than \$100,000 and classified OAEM, a formal review of the loan classification is completed every 3 years.

The formal review for the above loans consists of a review of the most recent financial information (balance sheet and earnings), and comparison to the previously received information. A review of loan performance, including a credit bureau search and collateral position, are also required. The loan file is documented with a memo form.

On existing loans equal to or greater than \$100,000 and classified as OEAM or all Adversely classified loans, a formal review of the loan classification is completed annually. The formal review for this group of customers consists of a 5-C analysis, credit bureau search, and UCC search. A credit report is developed for file documentation.

The same informational and classification review criteria applies to all loans segments, i.e. line of credit or term.

**Advances on lines of credit.** (defining line of credit advance as an additional loan request for operating credit after the initial loan request and cash flow have been completed and approved). File documentation includes a Farm Equity Manager Credit Report, which addresses the changes to financial position, cash flow, collateral, terms and conditions, and loan purpose.

A cash flow projection of income and expenses is required for FSA guarantee lines of credit loans and advances. The cash flow must reflect payment of all annual expenses and term debt payments prior to advancing in subsequent years.

The following documentation is required to perform the annual reconciliation of collateral for FSA guarantee lines of credit:

- On-site inspection of loan collateral at the beginning of the loan cycle. Documentation should include reporting number of head or bushels and beginning value.

- Customer to provide signed monthly inventory statements which lists all collateral in inventory at month end. For row crop operators, a semi-annual inventory report is acceptable.
- Customers are expected to apply full sale proceeds from collateral sales, unless release is approved by the Lender.
- On-site inspection of loan collateral to be completed at the end of the loan cycle, and documentation would be the same as required at the beginning of the loan cycle.
- Credit report at loan maturity required to document reconciliation of loan collateral.

**Emergency advances.** A moderate advance in excess of the line of credit ceiling may be made when a deviation causes expenses to exceed the original budgeted amount and the advance is necessary to avoid significant damage to the loan security or loss to the loan security. The reason for the advance along with the estimated dollar benefit to be derived from it will be included in the loan file. Generally emergency advances will be no greater than 15 to 20 percent of the line of credit.

**Construction Loans.** Loans made for development will require that the Lender be provided with a copy of plans, specifications and construction contracts. Lender endorsement of the method of construction is required. Advances on construction loans will be made based on the level of completion after verification by loan officer visual inspection.

**Loan extension policies.** Loan Extensions on line of credit loans, typically limited to 120 days, are completed when requested by the customer, and approved under delegated authority. Loan extensions on line of credit loans are generally granted to provide marketing time for commodities, or time to finalize upcoming loan plan. Loan extensions for term loans may be either informal or formal. Typically an informal extension is limited to 120 days.

**Partial Releases.** Partial releases are considered/underwritten the same as a new loan request. The degree of underwriting and informational requests depends upon the distribution of sale proceeds generated from the release. If all proceeds, excluding reasonable sale expenses, are to be applied to the note, underwriting would include obtaining a District 4167 (Service and Field Report) and a brief credit/collateral analysis as documented on this form. If sale proceeds are to be released, additional credit analysis and borrower information is required.

An Acceptable loan classification is required if considering release of sale proceeds. Generally, collateral position should not exceed lending standards after the release is completed.

Obtain junior lienholder consent, if a real estate release and proceeds are being released to borrower(s).

Release approval or denial is subject to delegated authority. Typically, the Lender would expect the application of cull sale proceeds on a line of credit note. The Lender utilizes a base herd agreement on term loans which allows the borrower to manage cull sale proceeds, as long as the base herd numbers are in compliance with the borrower's loan agreement.

Term debt collateral sales will not be used to make scheduled term debt installments.

**Additional loans.** The Lender may make consumer, residential and commercial loans to guaranteed loan customers as part of ongoing relationships. If unguaranteed loans are made, security will not be intermingled and payments will be applied to the guaranteed loan first. The Lender will not make payments to unguaranteed loans, which are adverse to the guarantee.

**Collateral monitoring.** Collateral monitoring for chattel loans is completed on an as needed basis. Monitoring real estate collateral is completed when there is a loan servicing actions. The Lender conducts an annual analysis of real estate values by comparing sales and other data annually against a benchmark property.

**Insurance.** Insurance requirements for real estate loans are established by the underwriting loan officer. The amounts are established using the replacement values assigned on the appraisal report. Full replacement values are typically required for homes and income producing facilities. The credit underwriter establishes insurance requirements for chattel loans on a case by case basis. Crop insurance is not mandatory, but may be required on case-by-case basis.

#### **B. Delinquent Account Servicing**

Loan servicing plans are required on all FSA guaranteed loans. Delinquencies are handled according to established policies and regulations. The Lender, being a part of the Farm Credit System, is subject to numerous *Borrower Rights* regulations and legislation. The Lender will abide by all standing regulations, laws, and policies, at all times. The Lender will abide by applicable FSA regulations which are in place at the time of the servicing action. The Lender has an established reputation of working closely with delinquent borrowers, in a manner which explores ways to restore the operation to viability.

#### **Default notices.**

Before 30 days past due: Letter and telephone contact with customer.

30 days past due: Notify FSA and complete FSA Form 1980-44.

Between 20 and 40 days past due: Borrower Rights letter, restructuring policy and mediation notice is sent.

Between 30 and 40 days past due:

- Meet with customer.
- Complete current balance sheet and cash flow.
- Review repayment plan and restructuring options.
- Determine eligibility and application of the FSA interest assistance program (any waiver of interest assistance by the customer must be in writing.)
- Summarize meeting complete FSA 1980-44 and forward immediately to the local FSA office.

Prior to 90 days past due: Forward completed FSA Form-1980-44 to FSA and additional reports thereafter every 2 months until the default is resolved and upon cure of the default.

Within 120 days past due: Lender must decide to restructure or liquidate the account.

When delinquencies occur, the Lender requests the borrower to supply updated financial information, and specific plans to pay the delinquency. This information is necessary for consideration of any rescheduling.

The Lender is required by law to follow *Borrower Rights* provisions. Distressed borrowers are identified, and notices are provided to the customer outlining their rights as a distressed borrower.

Loan Servicing plans are not mandatory, but are addressed in the credit analysis, and the repayment plans as submitted by the borrowers. Loan Service plans are used in some cases on adversely classified assets.

**Chattel loan restructuring.** Restructure purposes typically include restructuring operating losses or rescheduling term debt payments. Generally, OL loan restructures are limited to a 7-year term, and are more frequently considered on a 3-5 year term. OL loan restructures for longer than 7 years may not be considered on the PCA entity. Balloon payments are prohibited for any loan restructuring actions.

**Term loan restructuring.** FO loan restructures are typically limited to a maximum of 20 years. Restructure purposes typically include term debt rescheduling, reamortizing accelerated real estate principal payments to provide working capital, and operating losses. Balloon payments are prohibited for loan restructuring actions.

**Deferrals.** Deferments may not be granted on monthly installment loans. Principal Deferment is limited to a period that does not exceed five years, nor may it extend the life of the loan repayment period. Formally extended loans may not have principal deferments. Generally, principal deferments are not granted on loans which exceed collateral standards. Deferment of the principal installment is subject to borrower payment of the interest portion of the matured installment.

Deferments are documented with a District 4167 form along with updated balance sheets, earnings and other related loan information. A deferment is considered similar to a new loan request. Approval or denial is based on delegated authority.

**Debt writedown.** Lender will coordinate with FSA in processing debt writedowns. FSA concurrence will be obtained before a writedown is completed.

Debt writedowns are considered during the Borrower Rights process. Adequate cash flow and viability of the business are key considerations when considering writedowns. Debt writedowns will be completed according to section 762.145(e) of 7 CFR part 762.

### **C. Other Servicing Actions**

**Release of liability.** Consideration of a release of liability is based on the analysis of the five credit factors, and the resulting liable parties have the ability to service the debt. The Lender typically does not release liability as an on going practice, but it is considered and approved in limited cases. FSA approval is required for all releases of liability on FSA guarantee loans in accordance with section 762.146(c) of 7 CFR part 762. Release of liability after liquidation may not be part of a liquidation plan unless the plan is approved by FSA.

**Bankruptcy.** The Lender will rely on legal counsel and will take all necessary actions to protect and preserve the collateral in bankruptcy proceedings and comply with 762.148 of 7 CFR part 762.

**Liquidation/ Foreclosure.** The Lender retains Agribank's Risk Asset Departments to complete formal collections and comply with *Borrower Rights* provisions. This unit, in accordance with the *Borrower Rights* provisions completes all formal workout agreements. A liquidation plan, including costs of liquidation and expected time frames, is required. The liquidation plan will be kept in the borrower's case file. The Lender may conduct liquidation, including making bids at foreclosure sales, without prior FSA approval. However, in the event that the value of the property has been substantially reduced by the presence of hazardous waste, the Lender will obtain FSA concurrence prior to the establishment of a protective bid or conveyance by deed in lieu of foreclosure.

An estimated loss claim will be submitted by the Lender with a ledger and supporting calculations, if the liquidation is expected to exceed 90 days. Submission of any estimated loss claim will include the date of the decision to liquidate the loan.

The Lender must comply with the *Borrower Rights* restructuring provisions as documented in the 1971 Amended Farm Credit Act. Notice is provided to FSA for foreclosures on loans with FSA guarantees.

A decision to liquidate the loan will be made within 120 days of the payment due date.

**Mediation.** The Lender will participate in mediation according to State law.

**Protective advances.** The Lender may make reasonable protective advances not to exceed \$10,000 without FSA concurrence for the protection of the collateral.

**Judgments.** Judgments will be sought in all forced liquidations.

**Final loss claims.** Final loss claims will be prepared submitted, reviewed and approved according to section 762.149(i) of 7 CFR part 762.